

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON MOHOKARE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Mohokare Local Municipality, which comprise statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No.1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Consumer debtors

4. I was unable to obtain sufficient appropriate audit evidence for consumer debtors of R9 780 253 (2010: R13 843 842) as disclosed in note 12 to the financial statements due to the following:
 - Supporting documentation for certain indigent consumers could not be submitted to determine whether the applicant qualifies for indigence and to determine the occurrence, accuracy and completeness of the subsidies credited to receivables for indigent consumers amounting to R1 612 628 (2010: R616 755).
 - I was not able to obtain sufficient appropriate audit evidence as to the existence of receivables amounting to R1 751 220 (2010: R1 292 819), as I could not obtain evidence that subsequent payments were made by the consumers or that consumers had payment agreements for receivables amounting to R1 751 220. The matter occurred due to the failure by management to assess the existence of consumer receivables at year-end.

- A difference of R722 012 was noted between the account balance of trade and other receivables as per the debtor age analysis and the general ledger that could not be explained.

Furthermore, a difference of R2 231 098 was noted between the debtors system for bad debts written off for which council approval was obtained and the amount disclosed in note 12 to the financial statements. Contrary to the SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, corresponding figures in respect of the aging of receivables were not disclosed in note 12 to the financial statements to achieve fair presentation.

Due to the lack of information, I was unable to perform reasonable alternative audit procedures to provide me with the required audit assurance with regard to receivables and bad debts written off. Consequently, I was unable to determine the valuation, completeness, existence, allocation and rights to consumer debtors of R9 780 253 (2010: R13 843 842), as disclosed in note 12 to the financial statements.

5. The South African Statement of Generally Accepted Accounting Practice (GAAP), IAS 39 (AC 133), *Financial instruments: Recognition and measurement* states that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Contrary to the above, the municipality did not assess the consumer receivables, individually or by category, for any indication that these assets may be impaired during the prior year. As disclosed in note 12 to the financial statements, the provision for doubtful debts for the prior year amounted to R45 661 073. The provision made for the prior year was a general provision and was not made in accordance with the above-mentioned standard. As no assessment of the receivables was performed and no alternative procedures could be performed, sufficient appropriate audit evidence to confirm the valuation of the provision for doubtful debts for the prior year of R45 661 073, as disclosed in note 12 to the financial statements could not be obtained.

Value-added tax (VAT) receivable

6. Management was unable to provide explanations or supporting documentation for the difference of R2 367 244 between the output VAT according to the general ledger and the returns, as well as for the difference of R2 879 176 between the input VAT according to the general ledger and the VAT returns for the year. Furthermore, management did not claim VAT on capital expenditure resulting in the understatement of the VAT receivable by R1 873 975 and the overstatement of property, plant and equipment with the said amount. This was due to the fact that payments were expensed against the municipal infrastructure grant suspense account without taking the VAT effect into consideration. The entity's records did not permit the performance of reasonable alternative audit procedures. Accordingly, I was not able to confirm the existence, valuation and completeness of the VAT receivable amounting to R6 528 332, as disclosed in the statement for financial position and note 11 to the financial statement.

Investment property

7. The municipality could not provide sufficient appropriate audit evidence to support the completeness, rights to and existence of investment property of R29 404 500 (2010: R880 853) disclosed in note 5 to the financial statements, due to the following:
 - Title deeds of investment property amounting to R3 034 500 could not be provided for audit purposes.

- Investment property register was incomplete as all property was not clearly defined, the location of the property was not clearly indicated and the investment property register could not be reconciled with the asset register.

The municipality's system did not allow for the performance of alternative procedures. Consequently, I was unable to satisfy myself as to the completeness, valuation, allocation, existence and rights and obligations of investment properties.

Property, plant and equipment

8. GRAP 17, *Property plant and equipment*, requires the entity to identify and correctly classify assets between inventories, investment properties, property, plant and equipment and to recognise these assets using the principles in the Standards of GRAP. Contrary to this requirement and due to asset register that was not correctly updated and did not contain the required information to identify assets, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R155 975 629 (2010: R168 770 562) included in the statement of financial position and note 6 to the financial statements. The entity's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, rights to and existence of property, plant and equipment.

Trade and other payables

9. I was unable to obtain sufficient appropriate audit evidence for trade and other payables of R21 500 208 (2010: R16 179 288), as disclosed in the statement of financial position and note 17 to the financial statements. Alternative procedures confirmed that payables are understated, but the amount of the understatement could not be practically determined due to a lack of reconciliations, supporting statements and invoices. Furthermore, IAS 39 (AC 133), *Financial instruments: Recognition and measurement* indicates that financial liabilities should, after initial recognition, be measured at amortised cost using the effective interest method. Contrary to the above, expenses which have deferred payment terms have not been discounted by the municipality. Long-term service awards were also not recognised as a liability as required in terms of IAS 19 (AC 116), *Employee benefits*. The municipality's system did not allow alternative procedures to practically determine the impact of not applying GAAP as indicated on other account balances or classes of transactions. Consequently, I was unable to determine the existence, obligations of, completeness, valuation and allocation of trade and other payables.

Unspent conditional grants

10. The municipality could not provide sufficient appropriate audit evidence to support the completeness, rights and obligations, existence, valuation and allocation of unspent conditional grants of R22 195 902 (2010: R10 688 892) disclosed in the statement of financial position and note 16 to the financial statements. Alternative audit procedures could not be performed due to the extent of the weakness identified and the fact that the municipality's records did not permit the application of alternative procedures. Consequently, I was not able determine the completeness, obligations of, existence, valuation and allocation of unspent conditional grants.

Long- term liability

11. No loan agreements could be obtained for the loan of R1 337 755 (2010: R1 462 597) from the electrical service provider, included under long-term liabilities in the statement of financial position and note 14 to the financial statements. Alternative procedures performed to obtain loan agreements were unsuccessful and the municipality's records did not permit the application of further alternative audit procedures regarding these loans. I was therefore unable to confirm the obligation of, existence and valuation of these loans. The disclosure of and calculation of the current portion of long-term liabilities could also not be confirmed due to the limitations identified above. This occurred as management did not implement recommendations and take steps to ensure loan agreements are obtained.

Revenue

12. I was unable to obtain sufficient appropriate audit evidence for service charges of R28 275 181 (2010: R25 302 341), government grants and subsidies of R68 189 764 (2010: R40 790 368), rental of facilities and equipment of R656 777 (2010: R399 594) and other income of R1 135 008 (2010: R3 164 589), included in the total revenue of R101 750 443 (2010: R76 000 730 and disclosed in notes 19 to 22 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did obtain all the information and explanations deemed necessary to determine the occurrence, completeness, accuracy, cut off and classification of revenue of R98 256 730 (2010: R69 656 892). This occurred due to the failure of management to perform and review reconciliations in respect electricity revenue, traffic fines and government grants and subsidies, to ensure accurate recording of transactions on the accounting records. Furthermore, management did not ensure that adequate records and documentation were not available to support water revenue, rental of facilities and equipment and other income.
13. I was unable to obtain sufficient appropriate audit evidence as to the accuracy and completeness of property rates income of the prior year of R6 068 130. The entity's records did not permit the performance of reasonable alternative audit procedures. Consequently, I was unable to confirm the accuracy and completeness of property rates income for the prior year of R6 068 130 as disclosed in the statement of financial performance and note 18 to the financial statements.

Expenditure

14. Sufficient supporting documentation for journals could not be provided by management for entries recorded against the expenditure accounts with an estimated projected value of R1 174 174 for the prior financial year. In the absence of journals attached with all the necessary supporting documents, the entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to confirm the occurrence, accuracy and classification of these transactions for the prior year.
15. The municipality could not provide sufficient appropriate audit evidence to support the occurrence of expenditure of R6 307 132 (2010: R2 927 538), which includes duplicate payments of R1 270 286 (2010: R1 377 102), duplicate recordings of R1 108 814 and expenditure of R357 575 recorded in the incorrect period. Furthermore, sufficient appropriate audit evidence was not available to support the occurrence, completeness, accuracy, cut off and classification of electricity bulk purchases of R16 136 859. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine the occurrence of expenditure of R6 307 132 (2010: R2 927 538),

and the occurrence, completeness, accuracy and classification of expenditure of bulk electricity purchases of R16 136 859 included in the expenditure disclosed in the statement of financial performance.

Employee-related cost

16. Adequate supporting documents for allowances and overtime paid could not be obtained for employee-related cost amounting to R1 066 733 (2010: R573 342). The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy, occurrence and classification of these expenses.
17. Reconciliations were not performed between the amount for employment related cost (including remuneration for councillors) according to the payroll system and the amounts captured on the general ledger and disclosed in the financial statements during the prior year. An unexplained difference of R3 590 619 existed between the total employee related cost according to the payroll system (R20 468 056) and the amount captured in the general ledger and disclosed as employee related cost and remuneration for councillors (R24 058 675) for the prior year in the statement of financial performance and notes 25 and 26 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the unexplained difference between the amounts disclosed in the financial statement compared to the payroll system. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy, occurrence and classification of the employee related cost and remuneration of councillors of R24 058 675 for the prior year as disclosed in the statement of financial performance and notes 25 and 26 to the financial statements .

Capital commitments

18. In the absence of a register for capital commitments, sufficient appropriate audit evidence for commitments approved and contracted of R2 346 453 (2010: R26 649 008) and commitments approved and not yet contracted of R12 407 994 (2010: R12 460 000), as disclosed in note 34 to the financial statements could not be obtained. In the absence of a commitment register there were no satisfactory alternative audit procedures that I could perform. Consequently, I was unable to determine the completeness of commitments disclosed in note 34 to the financial statements.

Irregular expenditure

19. Irregular expenditure of R25 093 393 (2010: R25 788 491) was identified during the audit that was incurred due to supply chain management (SCM) policy and SCM regulations, which were not adhered to. This irregular expenditure was not disclosed in note 43 to the financial statements, as required in terms of section 125(2)(d) of the MFMA. Furthermore, I could not be provided with sufficient, appropriate audit evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the current and prior years. Due to the limitations placed on the scope of the work performed relating to expenditure and property, plant and equipment procurement, there were no satisfactory alternative audit procedures that I could perform to confirm the completeness, existence and valuation of irregular expenditure of R45 559 856 (2010: R63 144 064), as disclosed in note 43 to the financial statements.

Fruitless and wasteful expenditure

20. Fruitless and wasteful expenditure of R4 273 495 (2010: R834 8411) was identified during the audit that was not disclosed in note 42 to the financial statements, as required in terms of section 125(2)(d) of the MFMA. There were no satisfactory alternative audit procedures that I could perform. Consequently, I could not determine the completeness, existence and valuation of fruitless and wasteful expenditure of R833 142 (2010: R1 253 110), as disclosed in note 42 to the financial statements.

Presentation and disclosure

21. Contrary to the requirements of section 15(2)(d) of the MFMA, the distribution loss from the water and electricity service, was not disclosed in the notes to the financial statements. Due to the lack of controls, information and reconciliations to calculate the distribution loss, alternative procedures could not be performed to determine the loss.

Cash flow statement

22. Due to the extent of the audit differences, together with the extensive limitation of scope on the audit as highlighted in the basis for disclaimer of opinion, I was unable to obtain sufficient appropriate audit evidence for amounts and disclosures included in the cash flow statement and notes thereto. As alternative procedures could not be performed, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I did not obtain all the information and explanations I consider necessary to satisfy myself as to the accuracy, completeness and presentation and disclosure of the cash flow statement and notes thereto.

Going concern

23. According to the SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, when preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. According to note 2.2 to the financial statements the financial statements have been prepared on the assumption that the municipality will continue as a going concern. The municipality, however, did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Disclaimer of opinion

24. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matter

25. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

26. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 30 June 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Material losses and impairments

27. As disclosed in note 12 to the financial statements, impairments of R42 166 845 (2010: R45 661 072) were incurred and debts amounting to R8 146 803 were written off as irrecoverable as a result of the municipality's inability to recover debts.

Material underspending of conditional grant

28. As disclosed in note 16 to the financial statements, the municipality has materially underspent the budget on municipal infrastructure grants to the amount of R12 487 503. As a consequence, the municipality has not achieved its objectives of providing infrastructure for service delivery.

Unauthorised expenditure

29. As disclosed in note 41 to the financial statements, the municipality incurred unauthorised expenditure of R15 118 443 as a result of exceeding the limits of the different votes in the approved budget.

Additional matters

30. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary information

31. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

32. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives**Presentation of information**

33. The reported performance against predetermined objectives was deficient in respect of the following criterion:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.

34. The following audit findings relate to the above criterion:

- **Reasons for major variances between planned and actual reported targets were not provided in the report on predetermined objectives**

Adequate explanations for major variances between the planned and the actual reported targets for all the programmes were not provided, as required in terms of the relevant reporting guidance.

Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). All of the reported targets where improvement is required were not explained.

Usefulness of information

35. The reported performance information was deficient in respect of the following criteria:

- **Relevance:** There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- **Measurability:** The indicators are not well defined and verifiable, and targets are not specific and/or measurable.

36. The following audit findings relate to the above criteria:

- **Planned targets are not relevant to the objectives of the entity**

The measure and targets per the annual performance report did not relate directly to 63% of the institution's strategic objectives and targets as per the integrated development plan.

- **Planned and reported targets are not specific and measurable**

For the selected objectives in the IDP, 43% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance.

Reliability of information

37. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The reported performance did not occur and does not pertain to the entity.
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have not been included in the reported performance information.

38. The following audit findings relate to the above criteria:

- **The validity, accuracy and completeness of reported performance against indicators could not be confirmed as inadequate supporting source information was provided**
 - For the selected objectives the validity, accuracy and completeness of 24% of the reported indicators could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided.
 - For the actual performance achieved for establishing 10 cooperatives, the source information or evidence provided was not complete as the evidence only indicates that seven cooperatives were established.

Compliance with laws and regulations

Strategic planning and performance management

39. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
40. The accounting officer of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.

Budget

41. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
42. The mayor did not submit all quarterly reports to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
43. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

44. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of cash and cash equivalents and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.
45. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committees

46. No audit committee was in place from December 2010 to March 2011, as required by section 166(1) of the MFMA.
47. The audit committee did not function as required by section 166 of the MFMA, in that:
 - the audit committee did not advise the council, the accounting officer and the management staff of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation
 - the audit committee did not respond to the council on any issues raised by the auditor-general in the audit report
 - The audit committee did not meet at least four times a year.
48. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
49. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 166(2)(a) of the MFMA.
50. The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance Management Regulation 14:
 - Meet at least twice during the financial year
 - Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
 - Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
 - Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

51. The municipality did not have a functioning internal audit unit in place, as required by section 165(1) of the MFMA.

Procurement and contract management

52. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).
53. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).
54. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of SCM regulations 22(1) and 22(2).
55. Bid specifications were not drafted by bid specification committees, which consisted of one or more officials of the municipality, as required by SCM regulation 27(3).

56. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees, which consisted of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as per the requirements of SCM regulation 28(2).
57. Final awards and/or recommendation of awards to the accounting officer were not always made by an adjudication committee, which consisted of at least four senior managers of the municipality as per the requirements SCM regulation 29(2).
58. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
59. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).
60. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
61. Awards were made to suppliers based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
62. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
63. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.
64. The accounting officer failed to investigate allegations against an official or role player, of fraud, corruption, favouritism, unfair or irregular practice or failure to comply with the SCM policy, as per the requirements of SCM regulation 38(1)(b).

Human resource management and compensation

65. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
66. The municipal manager did not provide job descriptions for each post in the staff establishment, as required by section 66(1)(b) of the MSA.

Expenditure management

67. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
68. Sufficient appropriate audit evidence could not be obtained that money owing by the municipality was always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
69. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

- 70. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which recognised expenditure when it was incurred, accounted for creditors of the municipality and accounted for payments made by the municipality, as required by section 65(2)(b) of the MFMA.
- 71. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
- 72. The municipality did not recover unauthorised, irregular as well as fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.
- 73. The accounting officer did not always report to the South African Police Service the cases of alleged irregular expenditure that constituted a criminal offence or theft and fraud, as required by section 32(6) of the MFMA.

Transfer of funds and/or conditional grants

- 74. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year, as required by section 11(6) of the DoRA.

Revenue management

- 75. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
- 76. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

Asset management

- 77. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.
- 78. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

- 79. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings arising from the audit of the annual performance report and the findings arising from the audit of compliance with laws and regulations included in this report.

- **Leadership**

Mohokare Local Municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures and for the purpose of taking corrective actions.

The occurrence of material irregular expenditure during the year under review indicates that integrity and ethical values were not developed and understood and did not set the standard for sound corporate governance.

The previous accounting officer did not take appropriate action to address the lack of discipline in the finance and SCM directorates, resulting in non-compliance with applicable legislation. This, in turn, resulted in irregular expenditure.

- **Financial and performance management**

Staff did not have a clear understanding of the SA Standards of GRAP and the municipality did not have adequate individuals competent in financial reporting and related matters.

The financial staff members of the municipality were not committed and skilled to ensure that the daily financial activities are fully and correctly recorded in the records of the municipality. Management did not ensure that adequate controls were in place to detect and correct errors in the financial records. As a result of this and a lack of oversight:

- (a) The amounts disclosed in the financial statements, general ledger and sub-ledgers differed.
- (b) Documents supporting amounts disclosed in the financial statements were not available or supplied without significant delay.
- (c) Matters reported in the prior report were not corrected.

The previous accounting officer did not regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.

- **Governance**

The municipality has not undertaken a risk assessment to assess any risks of fraud and has consequently not developed a fraud prevention plan, as required by the MFMA.

Although the municipality has an internal audit division, it is not adequate for the purposes of the audit as it did not function as intended during the year under review.

The audit committee did not function throughout the year.

OTHER REPORTS

Investigations

80. Investigations are being conducted by independent consulting firms on request of the municipality and the premier's office. The investigations were initiated based on allegations of procurement irregularities. The investigations were still ongoing at the reporting date.

Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence